



**Americas'  
Accountability  
Anti-Corruption  
Project**

# An Assessment of Corruption in Paraguay

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October 2004

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This publication is funded under Contract AEP-I-00-00-00010-00,  
Task Order No. 01 Transparency and Accountability.

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## List of Acronyms

CG	<i>Contraloría General de la República</i>
CIRD	<i>Centro de Información y Recursos para el Desarrollo</i>
CISNI	<i>Consejo Impulsor del Sistema Nacional de Integridad</i>
CSO	Civil Society Organization
FDI	Foreign Direct Investment
GOP	Government of Paraguay
IBRD	World Bank
IDB	Inter-American Development Bank
IFMS	Integrated Financial Management Systems
INECIP	<i>Instituto de Estudios Comparados en Ciencias Penales y Sociales</i>
MP	<i>Ministerio Público</i>
NGO	Non-Governmental Organization
OAS	Organization of American States
PC	<i>Partido Colorado</i>
PNI	<i>Plan Nacional de Integridad</i>
RCC	<i>Red de Contralorías Ciudadanas</i>
SAI	Supreme Audit Institution
TI	Transparency International
TP	<i>Transparencia Paraguay</i>
UNDP	United Nations Development Program
USAID	U.S. Agency for International Development
USG	United States Government

## Executive Summary

### Overview

Paraguay ranks fourth from last on Transparency International's 2003 Corruption Perception Index. Corruption in Paraguay is endemic and systemic and takes place in all three branches of government as well as in the state and bi-national enterprises. It is perceived as pervasive, touching many aspects of the lives of its citizens, both rich and poor. While petty corruption is all-encompassing, it is grand corruption that captures attention and focus. The principal forms of corruption are: bribes, influence peddling, embezzlement, extortion, conflict of interest, patronage and nepotism. Other associated problems include contraband, money laundering and drug trafficking.

In 2003, Nicanor Duarte Frutos ran for and won the Paraguayan presidency on a strong and clearly articulated anti-corruption platform. While he has demonstrated sustained political will to address the problem and has made some important progress in carrying out his promises, there are a number of things that remain undone (e.g. greater government transparency) that impinge on the full credibility of his commitment.

### Causes of Corruption

Corruption has been an integral part of Paraguayan politics and society for more than 50 years. The autocratic Stroessner regime, which ended in 1989, institutionalized corruption as a way of life, leaving a legacy of extremely weak control institutions. Today, the absence of effective supervision and control over the allocation and use of public resources and the behavior of public officials constitutes one of the most serious challenges for democratic governments.

The *Colorado* Party (PC) has ruled Paraguay for more than half a century. Its main rival, the Liberal Party, has had more of a symbolic than an actual role in democratic governance. Over the years, the two parties developed an arrangement whereby, in exchange for a few government positions, the Liberals accepted the domination of the *Colorados*. Party capture of public administration is reflected in patronage, nepotism, cronyism, conflict of interest and embezzlement. **Lack of political competition** protects the *status quo*.

There are few negative incentives for corruption or consequences for the corrupt. Combined with other factors (e.g. low wages and slow economic growth), such **impunity** enhances the allure of the many corrupt opportunities that may tempt Paraguayans at all economic levels. A weak anti-corruption control system and a court system that enjoys little public confidence increase the margin of discretion and reduce the risks to corrupt behavior. Indeed, the incentives system has favored corrupt action.

The Government of Paraguay is characterized by a bloated and highly disorganized bureaucratic apparatus. There is **no career civil service**. Merit is not a factor in hiring or promotion. Government jobs are often provided as a political favor. Officials at all levels are badly paid. Due to a lack of established norms or excessive bureaucratic procedures, government employees

have a great deal of discretion in how they perform (or not) their duties. They are largely immune from dismissal for any cause. This generates a variety of low risk opportunities for corrupt behavior.

With few exceptions, the **Government of Paraguay lacks essential transparency**. Although the Constitution provides the right for citizens to receive information on all aspects of government operations, no enabling law has ever been enacted. There are no consistent standards for the establishment and dissemination of government information. This not only makes it difficult for citizens and the media to monitor what the government does with its resources, but also is a major impediment for the government's own auditors.

Paraguay has a **culture** that is widely believed to have accepted and made its peace with the practice **of corruption**. To be known as a corrupt person is not widely viewed as a great or lasting shame (another aspect of impunity). Large scale (grand) corruption does capture public attention. The daily flood of media reports concerning government corruption frustrates people, who feel impotent to respond.

Widespread **poverty** engenders desperation. People without economic hope find corrupt behavior their only opportunity. Exceptionally low pay in the public sector (by far the country's largest employer), coupled with a near certainty of impunity, fuels temptation.

## **Conclusions**

- **There is broad agreement that improvement of the anti-corruption system requires much better, more transparent and readily accessible information.** Better and more available information is vital to the establishment of any credible corruption control system.
- **The state of internal controls within the Government of Paraguay is poor to non-existent.** The total or near absence of a system of internal controls constitutes a serious obstacle to improved administration and audit.
- **The components of the GOP's anti-corruption system require vastly improved coordination.** At present very little coordination takes place, a situation that is advantageous to the corrupt.
- **There is a façade of anti-corruption constitutional provisions and laws, the majority of which remain wholly or partially unimplemented.** While this situation may reflect a certain cynicism, it also represents a foundation on which to build a sound anti-corruption effort.
- **The virtual inability of firing non-performing, incompetent or corrupt employees is a vital problem within the Government of Paraguay.** Unresolved, this situation will be a major constraint to the success of any anti-corruption strategy or program.
- **The absence of incentives for non-corrupt behavior and the lack of consequences for the corrupt must be addressed in any credible anti-corruption effort.** The knowledge that the

corrupt act with little risk and virtual impunity from both the law and social rejection provides reinforcement to those tempted by opportunities.

- **While there clearly is political will to address corruption, there has been mixed progress.** Positive will is demonstrated by a number of key accomplishments. However, certain unaddressed areas raise issues concerning the strength and depth of the President's and the country's will to reverse the flow of corruption.
- **While corruption is a serious problem, the reality does not appear to support the very low rankings Paraguay receives in international corruption perception indices.** Compared with other countries, Paraguay has taken a number of more meaningful initial steps that have produced tangible results. The problem appears to be that the indices are based on local perceptions rather than more tangible factors.

### **Strategic Options**

The reduction of corruption is fully consistent with Embassy/Paraguay's 2006 MPP and USAID's Concept Paper for the Strategic Plan for 2006-2011. However, such a strategy will require a long-term commitment. The proposed strategic options should be considered in the context of broader Country Team coordination and the execution of a comprehensive plan of policy dialogue. A successful outcome to the dialogue agenda and the USAID anti-corruption strategy would make Paraguay a more successful competitor for Millennium Challenge Account resources.

1. **Improved transparency for Paraguayan governance.** No matter how good, anti-corruption systems and activities will have minimal impact unless there is reliable, credible information that is widely accessible.
2. **Strengthen internal controls.** Without a comprehensive and fully implemented system of internal controls, the impact of other anti-corruption control elements will be significantly limited.
3. **Reduce impunity.** For sustainable change to happen, there must be negative consequences for the corrupt.
4. **Change incentives.** Reduce tolerance for corruption and reward integrity.
5. **Promote civil society capacity to demand greater government accountability.** Citizen reinforcement of political will is an essential element in the long-term sustainability of GOP policies and actions to bring an end to corruption.



## **I. Introduction**

### **A. Overview**

The 1989 overthrow of Alfredo Stroessner ended a long period of authoritarian rule in Paraguay. In the following years, the corruption that grew under and sustained his dictatorship became more dispersed throughout the country. Today, Paraguay ranks fourth from last on Transparency International's 2003 Corruption Perception Index.

Corruption in Paraguay is endemic and systemic, and takes place in all three branches of government as well as in the state and bi-national enterprises. It is perceived as pervasive, touching many aspects of the lives of its citizens, both rich and poor. While petty corruption is all-encompassing, it is grand corruption that captures attention and focus. The principal forms of corruption are: bribes (e.g. for votes, licenses, services), influence peddling, embezzlement, extortion, conflict of interest, patronage and nepotism. Other associated problems include contraband, money laundering and drug trafficking.

In 2003, Nicanor Duarte Frutos ran for and won the Paraguayan presidency on a strong and clearly articulated anti-corruption platform. While he has demonstrated sustained political will to address the problem and has made some important progress in carrying out his promises, there are a number of things that remain undone (e.g. greater government transparency) that impinge on the full credibility of his commitment. Monitoring of Paraguay's compliance with its obligations under the Inter-American Convention Against Corruption indicates the existence of most of the required constitutional provisions and laws; however, implementation of this legal framework has been extremely limited.

While there is no study to document the details, corruption clearly has been an important cause of the country's near chronic economic stagnation. Over the past eight years, real per capita GDP has fallen by 13 percent. Nearly 41 percent of Paraguayans are living in poverty, as contrasted with 33.9 percent in 1999. Economic growth has been virtually flat since the late 1990's. It is estimated that nearly two-thirds of business is outside of the formal economy. Serious investors, foreign and domestic alike, avoid the obvious risks in Paraguay, as they cannot compete with those who benefit from contraband, piracy of intellectual property and tax evasion. For Paraguay to achieve its economic potential and to create credible hope for a better life for its citizens, the control of corruption must be the highest priority.

### **B. Methodology**

The Casals and Associates corruption assessment team conducted its fieldwork in Paraguay September 12-24, 2004. Team members included: David Cohen (team leader), Gerardo Berthin (Democracy and Governance Advisor, Casals and Associates) and Yemile Mizrahi (Democracy and Governance Consultant). In Paraguay, the team was assisted by Dr. Diego Abente Brun (political scientist) and Enrique Sosa (lawyer).

The team met with more than 80 individuals (See Annex I), representing the three branches of government, local government, elements of civil society, the business sector, the Catholic



Church and members of the international donor community. Interviews were conducted in both Asunción and Washington, DC.

### C. Acknowledgements

The Casals team wishes to acknowledge the gracious and substantial assistance and guidance given to it by the USAID/Paraguay mission. Particular appreciation is given for the outstanding support provided by Democracy and Governance officers Steve Marma and Alfonso Velazquez. Eligio Kriskovich was very helpful in conducting two focus groups with representatives of civil society and business organizations. The team also wishes to thank Mariela Lanzas of Casals and Associates for the superb logistical support she provided.

## II. The Causes of Corruption

Corruption has been an integral part of Paraguayan politics and society for more than 50 years. The Stroessner regime “institutionalized” corruption as a way of life, leaving a legacy of extremely weak control institutions. Today, the absence of effective supervision and control over the allocation and use of public resources and the behavior of public officials constitutes one of the most serious challenges for democratic governments. Seeking to identify the causes of corruption results in a wide variety of passionate response, as people try to unravel a very tightly woven and time-tested fabric. Nevertheless, there are a number of causal elements that define a generally broad consensus of understanding.

### A. Lack of Political Competition

The *Colorado* Party (PC) has ruled Paraguay since before the 1954 onset of the dictatorship of Alfredo Stroessner. Its main rival, the Liberal Party, has had more of a symbolic than an actual role in democratic governance.<sup>1</sup> Over the years, the two parties developed an arrangement whereby, in exchange for a few government positions, the Liberals accepted the domination of the *Colorados*. While members of the *Colorados* and Liberals point to ideological differences between them, these are not perceived to be of significance by most of the populace, nor by outside observers.

Over the years, corruption was the means that helped the *Colorados* maintain and strengthen their hold on power. Supporters of the party get government jobs, which offer multiple opportunities for illicit enrichment. Those discovered in corrupt acts can rely on the impunity that the party provides them through its control of, and influence on, the justice system.

Political party capture of public administration, particularly by the PC and the Liberals, is reflected in patronage, nepotism, cronyism, conflict of interest and embezzlement. Lack of competition protects the *status quo*. Because of the absence of competition and a closed list method of electing members of Congress, there is little connection or accountability between political parties and their constituencies.

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<sup>1</sup>The formal names of the two major parties are the *Asociación Nacional Republicana* (*Colorados*) and the *Partido Liberal Radical Auténtico* (Liberals).

More recently, several new parties have emerged and have taken an increasingly active role. One of these, *Patria Querida*, has won 17 seats in the Congress. PUNACE, a *Colorado* splinter group, also has 17 seats. While the two largest parties still dominate, the result is a somewhat more lively debate and action in Congress. Although the result is not always constructive (or ethical), Congress now offers a stronger level of competition and balance to the Executive.<sup>2</sup> Significantly, nascent competition between the Executive and Legislative branches has impeded compromise on means for addressing corruption. Examples include laws on career civil service, illicit enrichment, asset disclosure and freedom of information.

### B. Impunity

Until relatively recently, there have been few negative incentives for corruption or consequences for the corrupt. Combined with other factors (e.g. low wages and slow economic growth), such impunity enhances the allure of the many corrupt opportunities that may tempt Paraguayans at all economic levels. A weak anti-corruption control system increases the margin of discretion and reduces the risks to corrupt behavior. Indeed, the incentives system has favored corrupt action.

It is virtually impossible to fire or even transfer corrupt public employees. The most negative consequences for corrupt behavior are brief suspensions or the “freezer” (in USG parlance, indefinite paid leave). Along with the general ineffectiveness of the GOP anti-corruption institutions (e.g. the *Contraloría* and the *Ministerio Público*) the result is a system that does not hold public employees accountable. This not only does not discourage corrupt behavior, but also undermines the ability to promote and enforce employee performance standards.

Filing of citizen complaints about corruption is not easy. Those channels that do exist are not trusted, and many people do not know of their existence. Complaints that are received can be filed away without action or are simply “lost.” There is no protection for whistleblowers, who can suffer a variety of acts of retribution.

A deficient legal framework and justice system also promote impunity. Conflict of interest, influence peddling and illegal enrichment are not yet recognized as crimes. When new laws on such subjects are proposed, corrupt interests (mostly in the Congress) ensure their defeat or insert provisions that negate any positive/punitive impact they might have had. Cases processed through the GOP’s principal anti-corruption bodies (the *Contraloría*, *Ministerio Público*, and the court system) may be arbitrarily dropped, lost or indefinitely delayed. Even when cases are processed through the justice system, there is little assurance that any penalties imposed will be actually carried out.

### C. Non-Career Public Service

The Government of Paraguay is characterized by a bloated and highly disorganized bureaucratic apparatus. There is no career civil service. Merit is not a factor in hiring or promotion. Government jobs are often provided as a political favor. Nepotism is rampant. Nine of ten

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<sup>2</sup>Even the newer parties are alleged to be engaged in corrupt activities such as kickbacks and vote selling.

Paraguayans believe that relatives of politicians are more likely to get hired for public sector jobs.<sup>3</sup> The Casals team was told by several sources that those who get jobs through the *Colorados* must kick back 10 percent of their pay to the party.

Officials at all levels are badly paid (See Table below). Due to a lack of established norms or excessive bureaucratic procedures, government employees have a great deal of discretion in how they perform (or not) their duties. They are largely immune from dismissal for any cause. This generates a variety of low risk opportunities for corrupt behavior. Many view a government job as an opportunity to enrich oneself and one's family. Worst case employees are put "in the freezer." There are also a number of "ghost" employees on the payroll, that is, people who are paid but are never seen. Despite the obvious economic costs of this bloated and highly inefficient bureaucratic apparatus, historically there have been few incentives for reform as public employees and their families provide an important electoral and political support to the governing PC party.<sup>4</sup>

<b>Paraguay: Range of Salaries in the Public Sector (2004)*</b>	
<b>Levels**</b>	<b>Range of Monthly Salary in US\$</b>
Service Personnel	130-150
Administrative Staff	300-500
Directors and General Directors	300-1,000
Ministers and General Comptroller	1,500
Legislators	2,100
President of Supreme Court and Congress	2,500
President	3,000

Source: *Paraguay, Presupuesto General de la Nación*, 2004.

\*Data is for permanent personnel. The salaries of consultants and temporary staff vary widely.

\*\*By law public sector personnel work 30 hours per week. Higher-level personnel (from Directors up) work much longer hours and get a supplement. The above salaries for these positions include this supplement.

In 2000, a law (#1626) was passed to strengthen and professionalize the Paraguayan public service. While not a panacea, the new law introduces elements of merit into both hiring and promotion and includes a new disciplinary regime for public employees. The law also sets out a (cumbersome) methodology for employee dismissal. However, implementation of the law has been delayed by more than 1000 legal and constitutional challenges. Its future is unclear. Meanwhile, the executive branch is preparing a revised version of the law to be sent to the Congress.

<sup>3</sup>CISNI/Transparencia Paraguay. "Control Ciudadano para el Cumplimiento del Programa Anti-Corrupción de los Partidos Políticos en el Paraguay." Abril, 2004. p. 11.

<sup>4</sup>The team was told that public officials and their families potentially represent more than 20 percent of the eligible voters, giving the PC a comfortable political support base. This is based on the latest data (September 2004) on public employment provided by the Ministry of Finance, which puts the total number of public employees at 144,577.

#### D. Lack of Transparency

With few exceptions (e.g. the new procurement system) the Government of Paraguay lacks essential transparency. There is no systematized means of obtaining government information.

Although Article 28 of the Constitution provides the right for citizens to receive information on all aspects of government operations, no enabling law has ever been signed. In 2001, there was an attempt to implement an Administrative Transparency Law (#1728). However, key stakeholders had not been consulted or made part of the design. A coalition of civil society organizations, led by the Journalists Union, lobbied intensively to block passage arguing that, in effect, it was a gag law. The law did not pass and the lobby group has developed an alternative Freedom of Public Information Law, which now is under discussion with elements of the Congress. A coalition of NGOs, media advocates and minor political parties is supporting the effort.<sup>5</sup>

There are no consistent standards for the establishment and dissemination of government information. This not only makes it difficult for citizens and the media to monitor what the government does with its resources, but also is a major impediment for the government's own auditors.

Lack of transparency also is the result of non-existent or deficient systems of information, even on key aspects such as land, property and vehicle registration. During the past two years, some ministries have made a concerted attempt to provide information through their websites (Annex III). However, most of these websites are largely unknown and underutilized and provide limited information.

Of particular concern has been the relative opaqueness of the anti-corruption control system. There is no operational, system-wide tracking system for corruption cases. It is not possible to ascertain the status of a given corruption case (e.g. whether it is in the hands of the *Contraloría*, the *Ministerio Público* or the *Procuraduría*) or what final determination was taken.<sup>6</sup>

The Congress also is rather opaque. There is no transparency on the work of legislative committees, most notably those concerned with budgetary matters. Although a few recent Congressional debates have been open to the public, this effort has been limited in scope. Both houses (Deputies and Senate) have electronic voting equipment. However, only the Chamber of Deputies uses the system and makes its voting record public.

#### E. Culture of Corruption

Paraguay has a culture that is widely believed to have accepted and made its peace with the practice of corruption. This has desensitized people as to the harm corruption causes them (e.g. as a primary cause of poverty). The small bribe for services is looked on by many no differently

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<sup>5</sup>Grupo Impulsor de Acceso a la Información Pública.

<sup>6</sup>There are several efforts underway to establish case tracking systems within individual elements of the GOP's main anti-corruption entities (e.g. the *Ministerio Público* and the court system). However, there is no apparent discussion on ways to integrate these systems if and when they become operational.

than someone elsewhere might consider a tip to a waiter. The result has been a generally muted demand for government to eliminate corruption.

While there may be acknowledgement that it is not acceptable behavior, corruption does not carry a heavy social stigma. To be known as a corrupt person in Paraguay is not widely viewed as a great or lasting shame. As a result, the potential *vergüenza* of a corrupt act does not necessarily serve as a significant disincentive for such behavior.

Large scale (grand) corruption does capture public attention, however. The daily flood of media reports concerning government corruption frustrates people, particularly when they see the impunity of the powerful.<sup>7</sup> They feel impotent to respond, and give up thoughts of even trying. This fatalistic acquiescent attitude toward corruption results in diminished citizen control efforts.

#### F. Poverty

People without economic hope find corrupt behavior their only opportunity. Exceptionally low pay in the public sector (by far the country's largest employer) fuels temptation. Employment in the private sector does not seem to provide an alternative. According to an IDB survey, employees in the public sector receive wages that are 46 percent higher than those earned in the private sector.<sup>8</sup> In a culture that does not heavily stigmatize corruption, illegal enrichment, bribe taking, etc. are the only means available to many desperately poor public employees who must feed, shelter and educate their families.

### III. Corruption Control

There is a structure of anti-corruption control elements that is essential to the success of any plan to bring more integrity to governance. The structure is shown in the graphic on pg. 7.

Paraguay has a system of control institutions that includes the *Auditoría General del Poder Ejecutivo*, the *Contraloría*, the *Ministerio Público*, the *Procuraduría* and the court system.<sup>9</sup> This structure complies with basic requirements established by the Inter-American Convention Against Corruption. For this control system to be effective, the different elements must be well-coordinated, transparent and have built-in mechanisms to ensure an adequate flow of information. Furthermore, the success of any plan to bring more integrity to governance requires the elements of control institutions to be interdependent. In Paraguay, the control system is inconsistently executed and largely opaque. The entire system is subject to political control and manipulation and suffers from an overall lack of coordination.

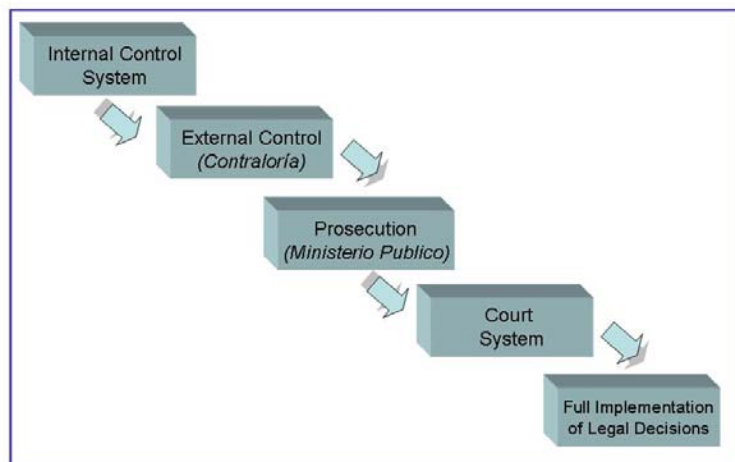
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<sup>7</sup>For a sampling of recent corruption scandals, see Annex VI.

<sup>8</sup>Lynnette Asselin, et al, "*Paraguay: Estudio de Gobernabilidad*," Washington DC: Inter American Development Bank, August, 2003, p. 53.

<sup>9</sup>The *Tribunal de Cuentas* and the *Procuraduría* are also considered part of the control institutions. However, they have minimal resources and authority and some of their functions and responsibilities overlap with other control institutions.

## Corruption Control Structures



### A. *Auditoría General del Poder Ejecutivo* (Office of the Auditor General)

Internal control plays a pivotal role in controlling corruption.<sup>10</sup> It constitutes the first filter for the detection and prevention of corruption behavior. If this preventive shield is weak or non-existent, the other elements of the corruption control structure become overloaded and increasingly inefficient.

The *Auditoría General del Poder Ejecutivo* is the entity responsible for ensuring the establishment and operationalization of internal control standards and actions throughout all elements of the executive branch of government. It is under-funded and under-staffed and shows little evidence of success in meeting its objectives. There are no government-wide financial and managerial standards for the implementation of, and compliance with, internal controls.<sup>11</sup> Most government entities also do not have operations manuals. Those that do usually do not monitor their usage.

Poor or non-existent internal control and operations standards make administrative and financial management control and accountability (i.e. internal control) much more difficult, if not impossible. While some entities (e.g. the Ministry of Finance, the Public Prosecutor's Office, the Office of the Comptroller General) have nascent internal control standards and structures, the absence of government-wide norms constitutes a vital flaw in the bedrock of the anti-corruption system.

<sup>10</sup>See Annex VII for a discussion of the role and importance of internal controls.

<sup>11</sup>Paraguay has an operational Integrated Financial Management System (IFMS). While this is potentially an important tool for internal control systems, its application is limited.

### B. *Contraloría General* (Office of the Comptroller General)

The *Contraloría General* (CG) is the GOP institution responsible for external control. Tellingly, Paraguay has had a CG for only ten years. It is responsible for auditing the financial and program use of government resources. The CG has a mixed reputation and record of achievement.

The previous Comptroller General has been indicted on corruption charges. While it is acknowledged that the CG is not as bad as it used to be, it is not considered a strong or effective institution.

Approximately 70 percent of the CG's current workload is comprised of "special audits," efforts carried out as the result of specific complaints (*denuncias*) or at the request of the Congress. It also responds/reacts to corruption "scandals" revealed in the media. As a result, the CG's limited staff and budget resources (250 auditors must cover some 830 governmental units) and the volume of attention given to special cases allows it to cover only about 10 percent (on a sampling basis) of what should be its more routine agency audits, thus enhancing vulnerability throughout the government.

The CG mostly does financial audits, largely ignoring the important need to cover program accountability (i.e. verifying that resources spent have achieved the stated objective). The work of the CG is prejudiced by the inadequacy of government information (i.e. lack of transparency) and the paucity of internal controls. This office also is supposed to review the financial disclosure statements<sup>12</sup> of government employees; however, it has insufficient staff and budgetary resources to do so. The CG has its own internal control system, ethics code and established audit norms.

The Comptroller General is a member of the opposition Liberal Party. While this is supposed to ensure organizational political independence, there still appears to be substantial political influence on the actions of the CG. The *Contraloría* has been accused by many of not investigating cases that may be politically compromising.

While the CG has a website, reports on budget execution are not available. Audits that reveal potential criminal corruption cases are forwarded to the *Ministerio Público* for further investigation and a determination of the need for prosecution in the courts system. The CG has neither a system for tracking the cases under its jurisdiction nor a systematized way of knowing what happens to cases when they are forwarded for additional action (e.g. to the *Ministerio Público* or the *Procuraduría*).

The CG has received assistance from the Inter-American Development Bank (IDB) on the development of operations manuals and some equipment. USAID is providing help in facilitating improved collaboration between the CG and the *Ministerio Público*

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<sup>12</sup>The availability of government employee information to the CG is limited. Under current law, government employees are required to submit financial disclosure statements only when they enter and leave government service. Privacy laws also limit CG access to employee information.



### C. *Ministerio Público* (Public Prosecutor's Office)

Although a number of individuals identify it as one of the government's most corrupt agencies, the Public Prosecutor's Office has a mixed record and reputation. It is said to delay or "lose" politically sensitive corruption cases. A weakness of the *Ministerio Público* (MP) is the lack of a functioning and transparent case tracking system.

The greatest volume of the MP's work comes from the *Contraloría General*. The MP complains that the CG sends over audits that it believes contain information that merit further investigation and eventual prosecution. However, the MP alleges these sometimes voluminous audits do not highlight the CG's specific concerns. This costs the MP unnecessary time and effort in unburying the relevant information. USAID assistance is currently supporting better collaboration between the CG and MP on this and other matters.

The MP also suffers from staffing and budget limitations. While it has nearly 2800 employees, many are unproductive and some have been relegated to the "freezer." As the primary criminal investigative arm of the GOP, it does not have its own forensics lab and personnel, a limiting factor in the development of strong prosecutorial evidence. Its investigative staff also is in need of significant additional training. As with the CG, the MP does not have a case tracking system, nor does it publish information on the caseload it processes.<sup>13</sup>

The MP is in the process of establishing an internal audit system and an ethics code. It has established courses to train employees on administrative and financial procedures. Its Inspector General's Office receives and investigates complaints against employees and determines the need for either administrative action or prosecution. A working group named Teko Pora ("walking with transparency" in Guaraní) has been established to monitor compliance with the Inter-American Convention Against Corruption and to interact with the *Consejo Impulsor del Sistema Nacional de Integridad* (CISNI).

A bright spot in the MP is the Economic Crimes Unit (*Unidad de Delitos Económicos*), which has an established record of achievement on some very high profile cases (e.g. several ex-presidents and the ex-Comptroller General). The unit was established in 2002 in response to a crisis in the banking system. It has grown from two to ten prosecutors,<sup>14</sup> each of whom has a staff of ten, including one accountant. The unit focuses on such subjects as influence peddling, money laundering, tax evasion, embezzlement and procurement fraud. Their work also is constrained by the poor quality of GOP information resources and a lack of basic equipment (e.g. faxes, networked computers). While its work can be technically specialized, the unit depends on outside contractors when it requires particular skills.

### D. *Procuraduría General de la República* (Office of the Solicitor General)

The primary function of the *Procuraduría* is to protect the financial resources and property of the nation and to recover stolen property or assets. While the current *procurador* is a close ally of the

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<sup>13</sup>In response to questions on this topic, the Attorney General gave the assessment team a logbook of cases, many of which were entered by hand.

<sup>14</sup>Average caseload per prosecutor is 30-40.

President, his office is small, dingy and has few material or human resources. This lack of capacity may be a reflection of the low priority or undesirable political risk attributed to this function.

In some instances, there is an apparent overlap between the functions of the *Procuraduría* and the *Ministerio Público*, with the miniscule former being more of a political annoyance to the latter in the context of turf battles. The *Procuraduría* also receives actionable cases from the *Contraloría General*.

#### E. Court System

There appears to be a general consensus that the court system is the most corrupt element of the key anti-corruption entities. As the result of bribes or political pressure, judges and court administrators are said to arbitrarily dismiss cases, “lose” them or cause procedural delays that stretch cases beyond the limits of the statute of limitations (3-4 years).

The influence of political parties in the selection and sanctioning of judges is perceived to curb their independence and impartiality. The Judiciary Council (*Consejo de la Magistratura*), which is charged with selecting judges, and the Impeachment Jury (*Jurado de Enjuiciamiento*), which sanctions judges, are perceived to be politicized because they include the participation of members of Congress and other political elements.<sup>15</sup> Given the absence of a judicial career with clear criteria and procedures, the perception is that the selection process more often puts politics above merit.<sup>16</sup> All judges are appointed to five-year terms and are subject to two reappointment processes before being given tenure. The reappointment process frequently serves as a discretionary means for exerting political pressure on judicial action.

Although the President encouraged the removal and replacement of six Supreme Court justices, questions remain about the integrity of the Court and its independence from the Executive Branch. Judges, particularly at the lowest level (*jueces de la primera instancia*), are alleged to accept bribes and other illicit incentives. There is no adequate case tracking system (though one is being developed with IDB/UNDP assistance). Cases may be dropped or delayed, resulting in no final action being taken against the accused.

The *Consejo de Superintendencia de la Corte Suprema de Justicia* is the entity in charge of internal control within the court system. It is responsible for reviewing allegations of judicial misconduct and monitoring and disciplining the work of judges and administrative personnel. However, most people either do not trust or know this official entity and use the press as a primary source for judicial complaints.

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<sup>15</sup>The Judiciary Council is composed of eight members representing the Supreme Court, the Executive branch, both houses of Congress, attorneys and professors from the both the national and private law universities. The Impeachment Jury is composed of six members, two from the Supreme Court, one senator, one legislator, and two representatives from the Judiciary Council.

<sup>16</sup>USAID is providing assistance in the development of a database aimed at making judicial selection less politicized and more merit-based. Under the same activity, guidance is being provided on the development of aspects of a judicial career system. Related assistance also is being given for the development of code of ethics, a draft of which may be ready by the end of 2004.

## IV. Other Key Actors

### A. The Government of Paraguay

#### 1. President Nicanor Duarte Frutos

President Duarte ran for office on a strong anti-corruption platform. By and large, he has made progress on operationalizing his campaign promises. Achievements include: a 43 percent increase in tax collections; a 57 percent increase in customs collections; the establishment and implementation of a vastly improved, effective and transparent computerized procurement system; and the arrest and prosecution of a number of former high level government officials.

Nevertheless, there are some obvious things that have not been done that impinge on the full credibility of his commitment. Examples include: making information more available (i.e. government transparency), open tracking and reporting to the public on anti-corruption cases and improving coordination among the GOP's key anti-corruption entities. These shortcomings may undermine the support the President gets from a public that does not have a good understanding of the actual progress that he has made on addressing the corruption issue.<sup>17</sup>

#### 2. The Legislature

Paraguay has a bicameral legislature consisting of a Senate and a Chamber of Deputies. As discussed in Section II, A (Causes of Corruption – Lack of Political Competition), the legislative branch increasingly plays a more active role (sometimes constructive, sometimes not) in Paraguayan governance. In recent years, it has shown a small increase in true political competition, as the power of the *Colorado* Party has slowly ebbed.<sup>18</sup>

While some members of Congress have shown strong political will to address corruption issues, this group constitutes a minority. Overall, there is little evidence of sufficient political will to address corruption in either of the legislative branches. It is generally believed that addressing certain key aspects of corruption (such as improved transparency) would be perceived as a threat to the imbedded power of the *Colorado* Party and, to a lesser extent, the Liberals. Both houses lack transparency, and there are numerous rumors of bribery to influence legislation. A recently passed Code of Ethics for the lower house was not accompanied by an implementation plan or a revision of internal rules.

#### 3. *Ministerio de Hacienda* (Ministry of Finance)

President Duarte nominated a highly credible and capable Finance Minister not from his own party. Under his leadership, while important corruption issues continue to be a problem, significant progress has been made in increasing tax and customs collections and improving the

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<sup>17</sup>Poor public perception of Duarte's anti-corruption progress could be a key factor in Paraguay's continued low ranking on the Transparency International Index. In turn, the low TI ranking may be an important element in the country's lost investment and other economic benefits.

<sup>18</sup>According to *The Economist Intelligence Unit*, in elections that took place in 1998, 2000 and 2003, the *Colorados'* winning percentages were 53.75, 46.99 and 37.14, respectively.

GOP's procurement system. Individuals selected for their competency and integrity lead each of these sub-units.

*Hacienda* is a lead entity in a GOP program to increase transparency and improve internal controls. To this end, it recently has established a Transparency and Citizen Participation Unit that has developed a useful, but still limited, website (that is being regularly improved) and provides a channel for citizens to file complaints.<sup>19</sup>

Much of what has been accomplished in *Ministerio de Hacienda* is based on personalities and, thus, may not be sustainable when the incumbents depart.

#### 4. *Defensoría Del Pueblo* (Ombudsman's Office)

The *Defensoría Del Pueblo* is intended to be the official office for human rights and public advocacy. It is intended to be a place where citizens can safely file complaints these matters and seek information on how to get their needs met by the government. Although the office was provided for in the 1992 Constitution, the first *Defensor* was not appointed until 2001 by the Chamber of Deputies.

While the *Defensoría* could play a very useful role, it hardly serves any function at all. Those citizens who know of its existence, have little trust in it. Its director is very politicized and poorly regarded. Since 2001, the *Defensoría* has received less than ten corruption-related complaints and cannot report on the status of any of them

In many countries, the *Defensoría* is a key government anti-corruption institution. In Paraguay, its presence is merely symbolic and almost cynical. It serves as a curious counterpoint to other positive indications of GOP political will.

#### 5. *Secretaría de la Función Pública* (Public Service Secretariat)

The *Secretaría de la Función Pública* is the government agency that is responsible for implementing the new Civil Service Law (#1626), which is currently tied up in legal and constitutional disputes. The purpose of the law is to establish a career civil service and bring an end to the culture of clientelism, patronage, nepotism and favors that has traditionally characterized the GOP. The office has few resources – not even enough to begin a training institute.

#### 6. *Consejo Impulsor del Sistema Nacional de Integridad* – CISNI (Council for the Promotion of the National Integrity System)

CISNI was established in 1999. Nearly all of its current funding is provided by the IDB, although there is apparently a plan for full GOP funding by 2006. It is a public-private entity responsible for designing, implementing, monitoring and evaluating a national anti-corruption plan. Since

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<sup>19</sup>Principal obstacles to making the Ministry more transparent are many of its deficient or inaccessible information systems. In part, the problem is due to poor systems, although bureaucratic resistance to greater transparency is also a factor.

2001, CISNI also has been responsible for monitoring progress on international anti-corruption conventions (of the OAS and UN) and for promoting better management and improved transparency within the government. CISNI has a well-qualified and motivated technical staff.

The President of CISNI is President Duarte's senior economics advisor.<sup>20</sup> While this individual provides the legitimacy of a high level link with the President, he is not significantly engaged with the daily operations of the organization.

CISNI's members include elements of the GOP, private enterprise, the Catholic Church and civil society. While CISNI is not well known by the public at large, it has become a space for anti-corruption dialogue among diverse segments of Paraguayan society.

With the help of the World Bank Institute, CISNI drafted the *Plan Nacional de Integridad* (PNI), which is the result of a comprehensive assessment conducted in 2000 at the request of the Paraguayan government. Assessment results helped identify the priority areas of work: customs, the judicial system and procurement. The PNI 2000-2004 is organized around five strategies and 88 initiatives. The five strategies are: 1) reform for modernizing the public sector and increasing transparency, 2) coordination of control entities, 3) promotion of active civil society participation, 4) implementation of a national anti-corruption awareness campaign and 5) monitoring of the anti-corruption legal framework.

With assistance from the World Bank Institute, a follow-up assessment using the same methodology as in 2000 is currently on the works. The results will help measure progress on the previous PNI and prioritize other anti-corruption areas for future intervention.

CISNI has been charged with providing technical assistance and training for the establishment of transparency units in all government agencies. Pilot locations for these units include the Ministry of Finance, the Public Prosecutor's Office and the Comptroller General's Office.

There are several important issues regarding CISNI's future. The most important is its sustainability. While there is a plan for full GOP financing by 2006, it is not certain; even if it were, it would be subject to the whims of future political will. Another issue concerns future roles for CISNI. Among other roles it might take on would be that of a forum for improved coordination among the GOP's anti-corruption control entities. In this regard, CISNI could provide management of an overall anti-corruption case tracking system – a function consistent with its primary monitoring responsibilities.

## B. Non-Government Actors

### 1. Civil Society

Civil society, which was repressed during the Stroessner years, is relatively weak. While a base has emerged, the immediate potential appears to be too limited in the near term to achieve the critical mass of participation and coalition building essential to address widespread and deeply

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<sup>20</sup>He has the title of Minister without Portfolio.

ingrained corruption issues. It is significant that NGOs have been given the legitimacy and importance of being designated participants in CISNI,<sup>21</sup> even though it is said that President Duarte may see this element of society as unwelcome competition to political party hegemony.<sup>22</sup>

Civil Society Organizations (CSOs) still must overcome a legacy of a low level of interpersonal trust. According to the 2004 *Latinobarómetro* Survey, Paraguay is among the three lowest ranking countries in Latin America on an index of interpersonal trust. Many CSOs acknowledge the need to increase coalition-building activities, which until now, have been difficult to construct.

USAID/Paraguay is widely viewed as the champion of civil society organizations. Among those entities that it supports, there are several standouts in areas relevant to anti-corruption activity:

- The *Red de Contralorías Ciudadanas* (RCC) is a network of community-based, volunteer social audit organizations that observe how local governments use public resources. Each organization is established at the municipal level and is tied to a network within its Department. The Department groups then are networked into a national organization. The national RCC provides training and public education materials (e.g. posters on anti-corruption values, radio programs) and has an important role in raising awareness about the cost and impact of corruption. Interestingly, the RCC gets good cooperation from the CG for the information needs of its local organizations.

- *Transparencia Paraguay* (TP) is the local affiliate of Transparency International (TI). It carries out the perception surveys that constitute the raw data of the TI index, as well as a few specialized local surveys. TP participates on the board of CISNI and has taken part in external audits of several government entities. It provides training on transparent budgets and will aid CISNI in the installation of transparency units within GOP ministries and agencies. TP supported the passage of the new procurement law and is providing assistance in its implementation. It also is working on the development of an asset disclosure program for the employees of the *Ministerio de Hacienda*.

- INECIP (*Instituto de Estudios Comparados en Ciencias Pemales y Sociales*) is an NGO that works on strengthening the judicial system, expanding citizen participation and implementing conflict resolution mechanisms. Training is a key element of its work. One of the projects it would like to pursue is the establishment of a tracking system for the Economic Crimes unit of the MP.

- CIRD (*Centro de Información y Recursos para el Desarrollo*) is an NGO whose principal task is training and strengthening other NGOs. Among its training clients are members of the RCC and other unaffiliated social audit organizations. It also supports training needs of TP and CISNI and is helping the Finance Ministry in the establishment of its transparency unit.

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<sup>21</sup>Some CSOs initially distrusted CISNI due to its proximity to the GOP. This situation has improved over time.

<sup>22</sup>See, USAID/MSI, "Paraguay Democracy & Governance Assessment," June 2004, p. 34.



## 2. The Media

Corruption is a main focus of the Paraguayan press. Investigative reporting, especially in the press, constitutes one of the main stimulants of government anti-corruption activity. Despite the overall lack of government transparency, the media seem remarkably able to develop sources and evidence of corruption activity.<sup>23</sup> In this sense, the media provide significant impetus to the development and sustainability of the government's political will to attack corruption.

However, there is little media follow up on corruption cases and a failure to report positive anti-corruption achievements. This deficiency may contribute to the negative public perception of GOP anti-corruption activity, a key factor in Paraguay's extremely low ranking in the Transparency International Perceptions Index.

Corrupt media ownership, particularly in the press, is an important caution when considering the corruption information and opinions of the media.

## 3. The Private Sector

Large-scale informality provides ample opportunity for a broad spectrum of corrupt activity. A significant element of the private sector benefits from illicit transactions related to official contracts or collusion with government officials.

In the corrupt world of Paraguay, the private sector has a significant role. Seventy percent or more of Paraguay's private sector is informal and is composed of larger as well as small enterprises. As a country, Paraguay has long been known in Latin America as a center for contraband, money laundering and piracy of intellectual property. Informal enterprises are not legally established and do not pay taxes, worker benefits or meet a variety of other obligations. As several interlocutors pointed out, in the corruption of the bribe, the payer has a key role.

Yet, it is the legitimate portion of the private sector that pays the greatest percentage of all taxes collected by the GOP. For entrepreneurs who wish to be legitimate, it is difficult to compete with the much lower operating costs of those who operate outside the law. The temptation for a businessman to participate in a corrupt act may involve a choice regarding the survival of his enterprise.

One way of increasing formality and reducing private sector involvement in corruption is to reduce the cost and complexity of compliance while increasing the negative consequences for those breaking the law. Lower import taxes and simpler customs requirements have been important elements in the *Ministerio de Hacienda's* success stories.

## V. The Impact of Corruption

Corruption has a cost. While surveys suggest that people may understand the cost of corruption for themselves as individuals, it is less evident they comprehend how much corruption costs their

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<sup>23</sup>Prior assistance from USAID and other donors has been provided to improve the quality of investigative reporting.



country or impacts on their overall economic condition. As a result, little pressure is brought to seek a change in corrupt practices.

In many ways, corruption is at the root of **widespread poverty** throughout the country. The government is unable to meet the needs of its citizens. It spends more on paying for an inefficient bureaucracy than investing in social programs. For example, between 1991 and 2002, the percentage of total expenditures going to salaries increased from 39 to nearly 50 percent.<sup>24</sup>

A world-renowned reputation for corruption makes Paraguay significantly **unattractive for** foreign direct and other **investment**. *The Economist* recently reported that, in the last few years, Paraguay has experienced a net loss in existing foreign direct investments and a reduction of new FDI.<sup>25</sup> Legitimate companies are unwilling to risk their reputations by participating in an economy known for illegal activity. Moreover, corruption adds to the cost of doing business, yet another disincentive for developing or expanding business in Paraguay.

Corruption has been a significant **constraint to** the country's **economic growth**. Since the late 1990s, overall economic growth in Paraguay has been nearly flat. This lack of growth relates to low investment and productivity that are the products of a corrupt environment and corrupt public administration (e.g. several banking crises, little or no public investment).

Corruption has **undermined the credibility** that **democratic institutions have** with the Paraguayan people. The 2004 *Latinobarómetro* survey shows that only 39 percent of Paraguayans believe that democracy is preferable to any other form of government, a reduction of 20 points from a similar survey taken in 1996. The same survey indicated that 78 percent of the country's population believes that government benefits a powerful few rather than everyone. These data demonstrate the utter frustration people have in a government they perceive as unaccountable to them for meeting their essential needs.

Paraguay's reputation for corruption has **attracted elements of international crime** (narcotics trade, trafficking in people, money laundering) and terror. Criminal activity flourishes best where rule of law functions least. The corruption that supports such things as contraband and money laundering is a threat not only to the security and well-being of Paraguayans, but also to the country's neighbors and the overall international community

## VI. Conclusions

The following conclusions are those that most impact on decisions that must be made in the development of a viable anti-corruption strategy.

The conclusions are presented in an order more driven by logical flow than priority. Thus, some conclusions that may merit greater weight in making decisions regarding strategy may fall lower

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<sup>24</sup>Lynnette Asselin, et al, "*Paraguay: Estudio de Gobernabilidad*," Washington DC: Inter-American Development Bank, August, 2003, p. 53.

<sup>25</sup>The Economist Intelligence Unit, "Paraguay. Country Profile, 2004."

on the list so that they can be better understood within the overall context of the other observations.

- **There is broad agreement that improvement of the anti-corruption system requires much better, more transparent and readily accessible information.** Better and more available information is vital to the establishment of any credible corruption control system. In addition, more accountable government requires high quality, accessible information for its citizenry. While ideal government information systems could take time and money to put into place, there already is much information that could be made available, both to the control agencies and the public.<sup>26</sup> In making the government more transparent, it is important not to allow the perfect to become the enemy of the good.
- **The state of internal controls within the Government of Paraguay is poor to non-existent.** The total or near absence of a system of internal controls constitutes a serious obstacle to improved administration and audit. To use a sports metaphor, if the game has no rules and no one is keeping score, it is almost impossible to determine who may be cheating. Ministers and other government leaders require stronger incentives (e.g. sanctions for those who do not comply, positive recognition for those who do) to reinforce their will to make effective internal control and accountability their top management priorities.
- **The components of the GOP's anti-corruption system require vastly improved coordination.** At present very little coordination takes place, a situation that is advantageous to the corrupt. This situation facilitates discretionary actions that permit cases to be dropped, lost or delayed. It also makes the anti-corruption system itself non-transparent to those inside as well as outside of the Government. The appointment of an empowered anti-corruption coordinator (with the necessary staff and other essential resources) would be an important means to improve the quality and quantity of actions and output from all the control entities.
- **There is a façade of anti-corruption constitutional provisions and laws, the majority of which remain wholly or partially unimplemented.** Details of this façade are best seen in the documentation on Paraguayan compliance with the provisions of the Inter-American Convention Against Corruption. The cynicism of the situation aside, there is a very positive aspect of having this legal framework in place. It means there is already much the GOP can be doing without delay to implement an effective anti-corruption program. For example, a strengthened *Defensoría del Pueblo* could add substantially to citizens' ability to hold government agencies more accountable for their provision of services and use of resources.
- **The virtual inability of firing non-performing, incompetent or corrupt employees is a vital problem within the Government of Paraguay.** Unresolved, this situation will be a major constraint to the success of any anti-corruption strategy or program. Politically, it could be one of the most difficult to resolve issues the Government could face (should it choose to do so). With an election victory that was obtained with only 37 percent of the vote, it is questionable whether Nicanor Duarte would have the political leverage to address this issue. Moreover, even if he had won by a larger percentage, members of his *Colorado* Party,

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<sup>26</sup>Annex III contains a brief, annotated "webography" of GOP information resources on the Internet.

who view patronage as one of their greatest levers on power, would almost certainly resist. Finally, the government is Paraguay's largest employer. Were it to dismiss large numbers of people,<sup>27</sup> the country's poor investment environment (in part itself an outcome of corruption) would not produce the necessary jobs to absorb new entrants on the market. This also would make the political environment for such a decision even more difficult to endure.

- **The absence of incentives for non-corrupt behavior and the lack of consequences for the corrupt must be addressed in any credible anti-corruption effort.** The knowledge that the corrupt act with little risk and virtual impunity, both from the law and social rejection, provides reinforcement to those tempted by opportunities. Meanwhile, success against corruption receives relatively little attention or praise. Unless this changes, it will be very difficult to make progress against corruption in Paraguay.
- **While there clearly is political will to address corruption, there has been mixed progress.** Positive will is demonstrated by a number of key accomplishments and improvements in some anti-corruption institutions (e.g. increases in tax and customs collections and the new procurement law and system). However, certain relatively addressable areas of inaction, such as improved transparency and a more effective *Defensoría del Pueblo*, raise issues concerning the strength and depth of the President's and the country's will to reverse the flow of corruption.
- **Positive change in corruption not only is possible, but also does not need to be costly.** In fact, none of the Government's recent anti-corruption success stories had a high price tag. The installation of the new procurement system involved an initial outlay of only \$5,000 in computer and software costs (financed by the IDB) and was developed by Paraguayan software engineers. Indeed, the anti-corruption programs in taxes and customs actually produced net additional revenue for the Government. The main factor in anti-corruption success, unsurprisingly, is having highly motivated, empowered, independent leaders. While President Duarte seems to understand this, his go-slow approach may also reflect an acknowledgement of the political risk inherent in such actions.
- **There is a strong consensus regarding a high level of cultural tolerance for corruption.** In many circumstances, while people may acknowledge certain behaviors (e.g. bribes for some routine services) as corrupt, they do not think of them (or those responsible) negatively. Two important elements in addressing the problem must be a better awareness of the variety of costs of corruption and how these affect people's lives, especially those of the poor. These elements are essential in any program aimed at undermining the vicious circle of corruption.
- **Given the weak systems of control, increased decentralization of functions and resources to departmental and local governments may run the risk of exacerbating the spread of corruption.** While there are some excellent examples of well-functioning local government in Paraguay, most municipalities do not have adequate capability to manage

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<sup>27</sup>Beyond the issue of corruption, the size of the GOP's payroll is much too large. The number of employees that must be paid, to a significant degree, has resulted in the very low salaries government workers receive – a major motivator for corrupt behavior. Reducing the number of government employees, while increasing quality, could also provide the resources for increasing compensation levels.

additional resources. Moreover, mayors and other municipal leaders cannot count on adequate anti-corruption backstopping from the national-level control entities, such as the *Contraloría* and the *Ministerio Público*, which, because of resource limitations, cannot adequately cover their existing responsibilities. A mayor of one Asunción suburb told the assessment team that he had requested an audit from the *Contraloría* and never even received a response. This said, oversight work accomplished by local social audit NGOs, such as those belonging to the *Red de Contralorías Ciudadanas*, perform an important role in helping national control systems work and establishing anti-corruption awareness at the local level.

➤ **While corruption is a serious problem, the reality does not appear to support the very low rankings Paraguay receives in international corruption perception indices.**<sup>28</sup>

Paraguay ranks near the very bottom of the annual worldwide rankings of Transparency International and the World Bank Institute. Clearly, corruption is a major problem in the country. However, compared with other countries in the Latin American region alone, Paraguay has taken a number of more meaningful initial steps that have produced tangible results. The problem would appear to be that the international indices are based on local perceptions rather than more tangible factors. The nature of such perceptions may vary significantly between countries for any number of reasons, making country-to-country comparisons less valid. An important factor that could unfavorably impact perception in Paraguay could be the propensity of both the Government and the media to focus on corruption problems to the relative exclusion of reports on achievements. Popular perception and support have a key influence on maintaining and increasing the political will to address corruption. Similarly, improvement in the international perception indices could have a positive impact on investments that could further facilitate the anti-corruption political environment.

➤ **Paraguayan governance shows encouraging signs of political competition.** The 1992 Constitution gave Congress significant new powers, such as the abilities to override a line item veto, impeach the president, call on members of the executive to testify and modify the budget. It also provided a new oversight role in monitoring the execution of the budget. All of these put the Congress on more of a competitive footing with the executive branch. Other competitive signs can be found in the successful emergence of new political parties (e.g. *Patria Querida*, *País Solidario*) and the increased amount of debate on a wider variety of issues in a more pluralistic Congress. Since 1993, elections in Paraguay have been widely acknowledged and praised for being free and fair. Such expanded political space and competition offers potential opportunity in the medium to long term for progress on anti-corruption issues, such as improved oversight.

## VII. Strategic and Program Implications for USAID/Paraguay

### A. Non-Project Recommendations

The FY 2006 Mission Performance Plan for Embassy/Paraguay has as Strategy #1 under Democratic System and Practices, “Promote anti-corruption activities that contribute to transparent, accountable and responsive democratic institutions.” A key assumption of all the

<sup>28</sup>Annex V offers a tabular balance sheet of GOP anti-corruption assets and liabilities.

USAID strategic options (presented in Section B, below) is collaboration in this area among all members of the Embassy/Asunción Country Team. Anti-corruption assistance in Paraguay is provided by several USG agencies, not only USAID. Efforts sponsored by Treasury, Commerce, Justice, DEA and others should be closely coordinated to gain synergies of impact and policy. Overall policy success may rely on the collective strength of these synergies. With this objective in mind, the Casals corruption assessment team **recommends the establishment of a DCM-led Embassy committee to coordinate anti-corruption initiatives.**

USAID and other members of the Country Team should use every opportunity to advance an anti-corruption policy dialogue with their counterparts and contacts throughout Paraguayan society. The Casals assessment team also **recommends USAID and the Embassy establish a policy dialogue plan** to be put into action as rapidly as possible. Annex IV offers an initial menu of possible policy dialogue topics for immediate consideration. A successful outcome to the dialogue agenda (and the USAID anti-corruption strategy) would make Paraguay a more successful competitor for Millennium Challenge Account resources.

## B. Strategic Options

Effective **reduction of corruption requires a long-term commitment**, consistent application and ownership. While the Duarte Government may present some important opportunities, a view to what follows this administration also will be essential. Sustainability of policies and programs is a priority consideration.

To maximize the achievement of an anti-corruption strategic objective, closer donor coordination will be highly desirable. Key donors in areas impacting on corruption include the IDB, World Bank, UNDP and USAID. Other bilateral donors perhaps also should be included in this group. Nearly all the strategy options offered below include and sometimes assume the collaborative participation of other key donors. The Casals assessment team **suggests the establishment of a donor anti-corruption working group** to maximize coordination of donor inputs in this vital area.

The strategy options offered below are fully responsive to USAID/Paraguay's Democracy Strategic Objective, as provided in its "Concept Paper for Proposed Strategic Plan 2006-2011." The Strategic Objective is "Corruption Reduced and Good Governance Improved in Key Sectors." A footnote will link each option to the relevant draft Intermediate Result.

The menu of strategic options presented below can be considered individually or in strategic groupings. The selection of any strategy or group of strategies presupposes the inclusion of a strong policy dialogue agenda and close donor coordination. The strategies are presented in an order that is reflective of the Casals assessment team's view of strategic priority and potential impact. Should there be a decline in the political will and commitment of the Paraguayan Government to reduce corruption in the country, the team would suggest giving greater emphasis to the strategies targeted at reducing public tolerance for corruption and building civil society capacity to demand greater government accountability.<sup>29</sup>

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<sup>29</sup>No specific strategy to address the issue of patronage is included in the proposed options, but several deal indirectly with it. There is no doubt that patronage is an important element that negatively impacts on virtually every

- **Strategy 1: Improved transparency for Paraguayan governance:**<sup>30</sup>

No matter how good, anti-corruption systems and activities will have minimal impact unless there is reliable, credible information that is widely accessible. Just the availability of such information should have a negative impact on corruption, as such activities flourish best when there is the security of invisibility.

**Illustrative Activities:**

- *Development of an integrated case-tracking system:* Corruption cases will be tracked from the initial complaint (*denuncia*) through investigation and prosecution to the actual imposition of penalty (if any). Information will be available on the Internet and elsewhere. Activity will integrate any pre-existing tracking systems.
- *Aid the development and implementation of a Freedom of Information Law:* Activity will support ongoing efforts for the development and support of a good, passable law. This is an area that was supported through previous USAID assistance.
- *Development of indices that provide indicators of transparency and performance:* Credibly compiled and widely disseminated indices will increase public awareness essential to reinforcement and sustainability of anti-corruption political will.
  - *Impunity index:* Implemented by an NGO or media association, the impunity index will track government action on incidents of corruption uncovered in the media. Results will be published monthly. Regular publication of the index will serve as an incentive for improved control entity performance.
  - *Institutional Transparency Index:* This index will rank GOP ministries and agencies according to the quality and availability of the information they make available and related indicators. The existence of this index will motivate improved availability and quality of information from GOP entities.
  - *Service Performance Index:* This index will rate and rank government services on a variety of scales including coverage, quality and citizen satisfaction.

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element of governance in Paraguay. It is both a symptom and a cause of corruption. Without question, for the GOP to succeed in achieving its goals, it will be vitally important for it to have officials who are hired and promoted based on merit and who can be removed when they do not perform or break the law. GOP senior managers are acutely aware of this need and many appear very frustrated by their impotence to resolve it. Patronage is a product of the lack of effective party competition, which has had an impact on Paraguay's overall political culture. This culture has affected other parties as they come to have a share of the power and want their slice of the spoils system. Change in the status quo (perhaps induced by outside encouragement) will require a strong political shock that affects the will to deal with this problem. Once this will begins to materialize, donors (and embassies), through policy dialogue and targeted assistance, can provide the catalyst that will help the change succeed. Without that will, assistance that directly addresses the manifestations of patronage is unlikely to produce meaningful results.

<sup>30</sup>Supports Intermediate Result: "Good governance: Strengthen public sector accountability and build democratic institutions and governance practices to replace a patronage system."



Government agencies will be motivated (i.e. have the incentive) to compete to avoid a bottom ranking on this index.

- *Establishment of a Transparency Support Unit:* This entity will provide technical assistance, training and material support to newly established transparency units throughout the GOP. It will build capacity, while ensuring common standards and practices as well as compatibility.
- *Creation of an anti-corruption forum of senior GOP managers:* This forum will meet regularly and offer managers an opportunity to share information, perceptions, concerns, methodologies and best practices for controlling corruption. It also will establish a network for potentially improved anti-corruption collaboration and serve as a channel for possible technical assistance.

**Potential Indicators:** 1) Improvement of government entity performance as measured by the proposed indices. 2) Freedom of information law passed in Congress and mechanisms for its implementation set in place and effectively operational. 3) Increased number of government agencies providing useful information to the public. 4) Transparency units installed and effectively operational in key ministries such as Education, Health, and Environment and in the *Instituto de Previsión Social*. 5) Increased documentation and dissemination of best practices.

**Potential Partners:** CIRD, CISNI, members of Congress, INECIP, *Transparencia Paraguay*, *Grupo Impulsor de Acceso a la Información Pública*, media (e.g. *ABC Color*, *Ultima Hora*, *La Nación*)

- **Strategy 2: Strengthen internal controls:**<sup>31</sup>

Without a comprehensive and fully implemented system of internal controls, the impact of other anti-corruption control elements will be significantly limited.

**Illustrative Activities:**

- *Develop government-wide information systems to support internal controls:* This will help track and assess both financial and managerial performance of public officials and institutions.
- *Develop and help implement an internal controls compliance monitoring system:* Assistance will strengthen ministerial offices charged with supervising internal control compliance (*auditorías*, human resources). Included also will be the development of complementary government standards on such things as ethics codes, strategic plans and performance indicators. It is possible that the IDB would be willing and able to provide aspects of such assistance (which, among other things, would include a significant training component).

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<sup>31</sup>Supports Intermediate Result: “Good governance: Strengthen public sector accountability and build democratic institutions and governance practices to replace a patronage system.”



**Potential Indicators:** 1) Existence of government-wide internal control norms. 2) Increased number of government agencies with internal control units in operation. 3) Assessment of the number of agencies with poor, medium and good internal control information. 4) Number of government agencies assessed to have acceptable internal control oversight. 5) Ethics code for the public sector developed and implemented. 6) Improved collaboration between the *Auditoría General del Poder Ejecutivo* and the *Contraloría General*.

**Potential Partners:** CISNI, *Auditoría General del Poder Ejecutivo*, *Contraloría General*, CIRD, *Ministerio de Hacienda*, *Secretaría de la Función Pública*

- **Strategy 3: Reduce impunity:**<sup>32</sup>

For sustainable change to happen, there must be negative consequences for the corrupt. The disfunctionality of the court system is widely viewed as a primary causal element in Paraguayan corruption. While the IDB has the lead role in this area, USAID can provide important supportive assistance.

**Illustrative Activities:**

- *Support the development and implementation of controls in the legal system:* In effect, this is the continuation of activities already being supported by USAID. They include: a merit-based judicial selection system, a judicial career system, a code of judicial ethics, prosecution of judicial misconduct and improved coordination with other GOP anti-corruption control elements.
- *Strengthening laws with regard to corruption sanctions:* For corruption to be reduced, the corrupt must clearly recognize that there is a strong element of risk in being discovered and punished. New or strengthened laws would include such components as conflict of interest and financial disclosure as well as obligatory minimum sentences and asset seizures.
- *Provide forensic training and equipment for the Ministerio Público, especially the Unidad de Delitos Económicos:* Although it is specifically charged with investigating crime, the *Ministerio Público* does not have its own crime lab. This poses a critical obstacle to their ability to develop more definitive information and evidence for corruption cases sent on to the courts.
- *Review of existing laws:* The legal system contains thousands of laws, many of which are out of date and contain conflicting or redundant provisions. A review, once completed and made public, will start a process that will result in more transparent, consistent application and possible reform of the law.

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<sup>32</sup>Supports Intermediate Result: “Good governance: Strengthen public sector accountability and build democratic institutions and governance practices to replace a patronage system.”

**Potential Indicators:** 1) Survey indicating increased public confidence in the integrity of the court system. 2) More people (including a few “fat fish”) serving longer sentences and paying larger fines as the result of corruption-related convictions. 3) Outdated and conflicting laws amended or eliminated.

**Potential Partners:** INECIP, court system, *Ministerio Público* (including *Delitos Económicos*), *Transparencia Paraguay*, *Contraloría General*, business associations (e.g. ADEC, *Cámara de Comercio y Servicios*)

- **Strategy 4: Change incentives:**<sup>33</sup>

Reduce tolerance for corruption and reward integrity. Make it clear that integrity is rewarded and admired and that corruption is punished and considered disgraceful.

**Illustrative Activities:**

- *Assist the undertaking of a cost of corruption assessment:* Activity will support a rapid assessment of corruption costs and who “pays” them. Principal target audiences for the product of this assessment will be the general public and the business community. The objective of this activity will be to build and reinforce pressure on sustaining and increasing the government’s political will to combat corruption. Information developed under this activity will be widely disseminated through an intensive public awareness program.
- *A bi-annual awards program:* This program will reward (materially and through positive recognition) individuals and/or organizations responsible for thwarting acts of corruption. Results will be widely disseminated through a nationwide public affairs program.
- *Development of a public affairs program emphasizing negative outcomes for the corrupt and documenting positive experiences:* This activity will emphasize prominent media exposure with possible tie-ins to programs held in schools. A particular emphasis will be on building a better understanding of the relationship between corruption and poverty.
- *Work with media to provide more balanced anti-corruption reporting:* In part as the result of prior USAID assistance, the media are quite good at investigative reporting. However, they seem to pay less attention to anti-corruption achievement, the result of which is public skepticism with regard to the government. More complete and balanced reporting will offer the public a broader perspective of government efforts on corruption and help to better inform and balance public perceptions, a key factor in international corruption indices.

**Potential Indicators:** 1) Transparency International and World Bank perception indices and interim perception surveys ascertain that the overall view of the Paraguayan public (and targeted

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<sup>33</sup>Supports Intermediate Result: “Strengthen the capacity of the private and public sectors to fight corruption and demand reforms.”

segments) is that corruption is on the decline and that the GOP is committed to reducing corruption. 2) Opinion surveys show improved public understanding of what is corrupt.

**Potential Partners:** CIRD, INECIP, *Sumando*, CISNI, *Transparencia Paraguay*, *Cámara de Comercio y Servicios*, media, *Red de Contralorías Ciudadanas*, *Sindicato de Periodistas*

- **Strategy 5: Promote civil society capacity to demand greater government accountability:**<sup>34</sup>

Citizen reinforcement of political will is an essential element in the long-term sustainability of GOP policies and actions to bring an end to corruption.

#### **Illustrative Activities:**

- *Social Auditing:* Continue to expand and enhance support to the *Red de Contralorías Ciudadanas* and similar civil society organizations that enable citizens to provide oversight of the use of government resources.
- *Develop a centralized and computerized system for denuncias:* This system, under an entity such as CISNI, will simplify and make it safer for citizens and government employees to file complaints about corruption and poor service. The system also will include technical assistance on the encouragement and protection of whistleblowers.
- *Small grants to civil society:* As a broadening of an existing USAID program being implemented through CIRD and an IDB effort being carried out by CISNI, provide small-scale financial support to local NGO anti-corruption initiatives. This program will be beneficial for both its anti-corruption impact and the encouragement of further development of what is now a rather limited civil society organization base.
- *Political Party Finance:* Support civil society endeavors to monitor and comment on the use and amount of public and private funding of political parties. Unaccountable use of such funding is an important channel for corruption at all levels and in all branches of governance.

**Potential Indicators:** 1) Sample survey results of corruption perception in selected municipalities. 2) Number of *denuncias* received from citizens and whistleblowers. 3) Survey demonstrating the increased amount of published information on the source and use of political party funds. 4) Electronic voting in the Senate used and results made public. 5) New regulations introduced requiring political parties to disclose the sources of private funding and reports of their expenditures. 6) Centralized system for *denuncias* producing active citizen response. 7) Legislation protecting whistleblowers passed and judged effective/credible.

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<sup>34</sup>This strategy could be implemented separately or combined with the previous strategy, “Change incentives.” Supports Intermediate Result: “Strengthen the capacity of the private and public sectors to fight corruption and demand reforms.”



**Potential Partners:** *Red de Contralorías Ciudadanas, CIRD, CISNI, Defensoría del Pueblo* (only if substantial improvements have been carried out), *Transparencia Paraguay, Tribunal Electoral, Congress*

## Annex I: Assessment Contacts

<u>Name</u>	<u>Title/Organization</u>
Dr. Diego Abente	Consultant
Dr. Nelson Alcides Mora	Solicitor General ( <i>Procurador General de la República</i> )
Mercedes Argaña	Executive Director, Technical Unit, CISNI
Gilda Arréllaga	<i>Ministerio de Industria y Comercio</i>
Lynnette Asselin	IDB, Washington
Carlos B. Bareiro B.	<i>Red de Contralorías Ciudadanas del Paraguay</i>
Luis Bareiro	Journalist, <i>ABC Color</i>
Dr. Luis María Benítez Riera	Member of the Court of Appeals (Criminal)
Dra. Mercedes Buonghermini	Member of the Court of Appeals (Civil and Commercial)
Alvaro Caballero	CIRD, NGO
María del Pilar Callizo	President, <i>Transparencia Internacional, Paraguay</i>
Dino Caprirol	Senior Operational Specialist, State and Civil Society Programs, IDB, Washington
Dr. Augustín Carrizosa	CIRD, NGO
Miguel Carrizosa Galiano	Senator, President of Congress
Dr. Javier Contreras	<i>Fiscal, Unidad de Delitos Económicos</i> of the <i>Ministerio Público</i>
Sarah Cook	U.S. Commerce Department
Alvaro Cubillos	Resident Representative, Inter-American Development Bank/Paraguay
María M. Díaz de Vivar de Cocían	Director, Customs
Ricardo Dos Santos	President, <i>Cámara de Comercio y Servicios</i>
Dr. Mario A. Estigarriba M.	Deputy Comptroller General
Pedro Fadul	President, <i>Patria Querida</i>
Eduardo Feliciangeli	Specialist in Modernization of the State, IDB/Paraguay.
Luis Ferras	Advisor to the President of the Chamber of Deputies
Rafael Filizzola Serra	Congressman <i>País Solidario</i>
Dr. Francisco Galeano	Comptroller General
Pedro Garay A.	Executive Director, <i>Fundación Patria Querida</i>
Zulma Gómez	President, Budget Committee, Chamber of Deputies
Albino González	<i>Intendente</i> (Mayor), Villa Elisa

Carlos González Rodas	Member of the Board, Paraguayan Chamber of Industry and Construction and Member of the Board of the Federation of Industry and Commerce (FEPRINCO).
Hugo Ramón González	Representative of the Water Company Union (SITRA/ESSAP)
Sergio Guzman	Deputy Director, USAID
Peter Hansen	World Bank, Resident Representative/Paraguay
Henry Jackelen	UNDP, Resident Representative/Paraguay
Kevin Johnson	Deputy Chief of Mission, U.S. Embassy
Eric Kite	USAID/DCHA/DG/Washington
Marcos Kohn Callardo	Executive Director, INECIP, NGO
Nybia Laguarda	Specialist in Operations, State and Civil Society Programs, IDB/Washington
Giulio Laratro	Administrative and Financial Director, <i>Ministerio de Hacienda</i>
Oscar Germán Latorre Cañete	Attorney General, <i>Ministerio Público</i>
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Steve Marma	Democracy Team Leader, USAID/Paraguay
Ignacio Martínez	Editor, <i>Ultima Hora</i> Newspaper
Gerald McCulloch	Executive Director, American-Paraguayan Chamber of Commerce
James P. Merz	U.S. Embassy/Political Section
Marilia Mirza	IDB/Washington, Country Coordinator for Paraguay
Ing. Jorge Moreno	President, Paraguayan Chamber of Construction Industries (CAPACO)
Strother Murray	U.S. Department of State, Paraguay Desk Officer
Andreas Neufeld	Vice Minister of Tax Collection, <i>Ministerio de Hacienda</i>
Alain Norman	U.S. State Department, WHA/PPC
Dr. Víctor Núñez	President, Supreme Court
Jerry O'Brien	USAID/DCHA/DG/Washington
Pat O'Reilly	U.S. Embassy/Economic Section
Monseñor Oscar Paez Garcete	<i>Pastoral Social</i> and Vice-President of CISNI
Dr. Manuel Paez Monges	Ombudsman ( <i>Defensor del Pueblo</i> )
Joe Parker	U.S. Embassy/Department of Treasury
Raul Quiñónez	Transparency and Citizen Participation Unit, <i>Ministerio de Hacienda</i>
Alberto Ramírez Zambonini	Chair, <i>Tribunal Superior de Justicia Electoral</i>
Juan Carlos Ramírez	Senator, <i>Partido Liberal</i>

Ing. Juan Max Rejalaga	Director, Directorate of Public Tenders and Purchases
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Scout Thorley	U.S. Embassy/Department of Justice
Alex Uriarte	USAID/Paraguay/Economic Growth
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### Focus Group 1: Civil Society

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Jorge Aquino	<i>Alter Vida</i> , NGO
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Martha Ferrara	IDEA, NGO
Astrid Gustafson	<i>Sumando</i> , NGO
Lorenzo Livieres	CEPPRO, NGO
Raul Monte Domecq	POJUAJU, NGO
Pascual Rubiani	<i>Acuerdo Ciudadano</i> , NGO
Romy Vaesken	<i>Alter Vida</i> , NGO

### Focus Group 2: Business

Josefina Duarte de Benitez	President, Chamber of Exporters
Carlos Jorge Biederman	President, Paraguayan Chamber of Advertisers (CAP)
Dr. Alejandro Guanes Mersan	President, Executive Club of Paraguay
Ing. Max Haber	President, Paraguayan Center of Importers
Beltran Macchi Salin	President, Association of Christian Entrepreneurs (ADEC)



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### Annex III: The Government of Paraguay on the Web

A number of Paraguayan government agencies have made an effort to be transparent by providing information on the Internet, which is a recent phenomenon. Although most of these websites provide some useful information, it is still difficult to find basic laws, reports and statistics. Nonetheless, a few government agencies have taken the lead in showcasing information in their websites. Some of the most relevant websites are highlighted below.

- <http://www.paraguaygobierno.gov.py/src/login.php> This site is intended to be the main portal of the GOP. Unfortunately, it only links to the “*Despacho de la Primera Dama*” and requires log-in and password.
- <http://www.hacienda.gov.py/> The website of the Ministry of Finance has useful information on the reform process, indicators and statistics, as well as annual performance reports of the Ministry’s main programs. It links to a limited number of internal areas of the Ministry, including Customs and the new website for government tenders and purchases <http://www.contratacionesparaguay.gov.py/index.html>. The latter is a state of the art website with comprehensive information on tenders, contracts, awards and government purchasing plans.
- <http://www.mic.gov.py/> The website of the Ministry of Industry and Commerce offers an array of useful information, including laws, statistics, current economic reports and information on consumer rights and advocacy offices throughout the country.
- <http://www.mopc.gov.py/> The Ministry of Public Works and Communication website contains information on public tenders, criteria for participating in tenders and an annual list of all public tenders (showing basic information, such as status).
- <http://www.pj.gov.py/> The website of the Judicial System has information on judges, judicial districts, law magazines and journals and donor assistance projects. It offers a search engine and a subject index organized by law specialties.
- <http://www.proparaguay.gov.py/> This website is managed by the *Dirección General de Promoción de las Exportaciones e Inversiones del Paraguay* of the Ministry of Foreign Affairs. It targets potential investors and includes information on current tax laws, context, risks and basic economic information. This site has not been updated since December 2003 and, apparently, is no longer being maintained.
- <http://www.tsje.gov.py/> The website of the *Tribunal Superior de Justicia Electoral* offers information on civic education, disaggregated and aggregated and interactive electoral results and information on pertinent legislation.
- <http://www.opaci.org.py/> The website of the Paraguayan Organization for Inter-Municipal Cooperation provides basic and interactive information for all municipalities and departments, as well as information on control, transparency and decentralization. It links to websites of other local governments around the world. USAID and IULA/CELCADEL provide funding for this site.
- <http://www.camdip.gov.py/> is the website of the Chamber of Deputies and <http://www.senado.gov.py/> is the website of the Senate. Both offer information regarding laws that have been passed since 1998. Both offer basic information about members and

some key reports. The Chamber of Deputies' site offers a newsletter that has articles on current activities, including proposed laws.

- <http://www.dgeec.gov.py/> The website of the *Dirección General de Estadísticas, Encuestas y Censos*, an entity affiliated with the Presidency, provides basic statistical information, including data from the 2002 census.
- <http://www.pni.org.py/> is the website of the *Consejo Impulsor del Sistema Nacional de Integridad* (CISNI). It has useful information on key Paraguayan laws, model laws from other countries, a monthly newsletter, a documents library and reports on GOP compliance with OAS and UN anti-corruption conventions.
- <http://www.mca.gov.py/inicio.html> is the website of the municipality of Asunción. It has an array of forms to download (i.e., tax, vehicle registration). It also offers a space for complaints and a basic system for follow-up on these complaints.

#### **Annex IV: Illustrative Policy Dialogue Agenda for Paraguay**

Below are illustrative topics for inclusion in an Embassy/USAID anti-corruption policy dialogue with government officials in Paraguay. These topics would be complementary to those being developed by the *Consejo Impulsor del Sistema Nacional de Integridad* (CISNI), as part of their effort to update the *Plan Nacional de Integridad* (PNI) for 2004-2006. Many of the items suggested are not technically complex or costly.

Were these recommendations to be carried out, the result would be a significant impact on the control of corruption and increase the GOP's anti-corruption credibility. This would improve perception among Paraguayan citizens, which would be reflected on surveys carried out by Transparency International and the World Bank. Significant improvement in Paraguay's ranking on the TI and IBRD indices would enhance its competitiveness as a Millennium Challenge Account competitor.

##### Reforms to Increase Transparency and Accountability

- *Access to public information:* Promote the design and implementation of a Freedom of Information Law. Freedom of Information is guaranteed in Article 28 of the 1992 Constitution, but there is no implementing legislation. A law is needed to grant citizens access to information, as a prerequisite for holding public officials accountable for their actions. There was an attempt in 2001 to pass a law on transparency; but Congress did not pass it. The recently formed *Grupo Impulsor de Acceso a la Información Pública* (GIAI), made-up of 18 groups representing lawyers, journalists and NGOs, could be a good platform to lobby in favor of this new law. Even before a law is passed, President Duarte, using his existing authorities, should be urged to mandate and enforce more transparency in the Executive Branch.
- *Internal controls:* Urge President Duarte to ensure the prompt and efficient adaptation and application of internal control norms and mechanisms. In doing this, he must make certain that the government body responsible for overseeing the internal control process, the *Auditoria General del Poder Ejecutivo*, has both the political backing and resources necessary to carry out its job.
- *Financial disclosure:* With the support of civil society organizations and CISNI, promote the full disclosure of all public officials' financial and material assets. A law to monitor illicit enrichment made it to Congress, but did not pass. Even without a new law on financial disclosure, policy dialogue should encourage the President to insist on compliance with Article 104 of the Constitution (declaration of material and financial assets) within the senior levels of the Executive Branch.
- *Political party finance:* Political party resources are a significant source of corruption throughout the government. Encourage strengthened mechanisms for Laws 635 (Electoral Justice) and 834 (Electoral Code), particularly those related to public subsidies and contributions to political parties, spending limits, campaign time limits, public disclosure, tax incentives and free or discounted broadcast. Promote a reform to disclose, limit, and control private contributions to political parties. Such contributions comprise the first step in the

corruption chain, as private contributors feel entitled to recover their “investments” through patronage and selective access to information, favors, concessions, and permits from the government.

- *Complaints (denuncias)*: Urge the President to develop a complaint system that is easier and safer for citizens to use. Improve access to complaint services by publicizing their existence and encouraging their use. Ensure the anonymity of complainants and protection from retribution.
- *Whistleblowers*: Encourage regulations and procedures to protect government employees who register complaints against corrupt officials. Establish a witness protection program and a centralized hotline service for complaints.
- *Conflict of Interest*: As recommended by the Evaluation of the Inter-American Convention against Corruption, in Paraguay, there are currently no explicit rules to prevent conflict of interest in the exercise of public office. Through policy dialogue, urge laws and policies that prohibit conflict between government employees’ private interests and public obligations. Promote the passage and strict implementation of norms and laws that would ban former public officials from involvement in matters they were familiar with during their time in office or dealing with institutions with which they were recently associated.

#### Reforms to Strengthen the Control Institutions

- *Coordinate the activities of the GOP’s anti-corruption entities*: Establish a fully empowered anti-corruption coordinator to ensure that cases do not get lost and that high quality, actionable information and cases is passed between the entities. The *Unidad de Delitos Económicos* in the *Ministerio Público* should have a sister unit in the *Contraloría*.
- *Political independence of GOP anti-corruption control entities*: To be able to fulfill their anti-corruption roles, the offices of the *Contralor* and the *Fiscal General del Estado* (the attorney general) must be made more independent of political parties and the government. In part, this objective could be met by modifying how both officials are nominated and approved for their positions. An important step toward this end would be longer periods of appointment for the *Contralor* (10 years vice the current 5) that would not coincide with the presidential term and nominations approved by 2/3 of Congress (rather than by an absolute majority). Also recommend a longer period of appointment for the *Fiscal General* (10 years vice the current 5) that would not coincide with the presidential term and nomination approved by 2/3 of the Senate (rather than Presidential appointment with consent from the Senate and the *Consejo de la Magistratura*).

#### Reforms to Increase the Professionalization of Public Officials and to Modernize Public Administration

- *Career civil service*: Encourage implementation of the public service law (1626) and use it as a platform to establish a merit-based civil service, and reform the salary structure of the public sector based on function, performance and incentives.
- *Ethics code*: Encourage the design and effective implementation of a government-wide ethics code. Public officials must know what is expected of them and the consequences of violating the code.



- *Eliminate discretion in the payments system:* Design and implement a Unified Treasury Account (*Cuenta Unica del Tesoro*—CUT) that would allow electronic payments and transfers, thus eliminating the need for handwritten checks and authorizations, which can lead to discretion and corrupt behavior.

#### Reforms in the Judicial System

- *Depoliticize judicial appointments:* Nominate justices based on merit and for a longer period of time. Extend the term of the Supreme Court president for longer than one year. Design a judicial selection process that fully complies with Article 248 of the Constitution to guarantee independence, by ensuring a stronger role for merit (e.g. through testing) and dilution of the role of the executive and legislative branches (e.g. through an enhanced role for civil society or respected legal scholars).
- *Strengthen judicial anti-corruption restraints:* Explore ways and mechanisms to strengthen the role of key entities of the Justice System such as the Judicial Impeachment Jury, the Superintendency of Justice and the Judiciary Council. The ineffectiveness of these bodies and the perception of political bias undermine the credibility of the judicial system and the public's trust in it.

## Annex V: Balance Sheet on Democracy, Transparency and Accountability

Progress	Setbacks
<b>1992 Constitution</b>	
<p>Defines a well-balanced system of checks and balances between the executive, legislative and judicial branches and grants the <i>Contraloría</i> and the <i>Ministerio Público</i> independence from the Executive.</p> <p>The Constitution has several articles related to transparency, information and public ethics and employment (Articles 26, 28-29, 94, 99, 101-106 and 257).</p>	<p>System of checks and balances ineffective due to lack of political competition, over-politicization of most government offices and the virtual “capture” of the state by the two largest political parties. Duarte “pulverization” of the Supreme Court a sign of the power of the President to impinge on independence of the judiciary.</p> <p>Many a/c constitutional provisions either do not have normative frameworks or are not enforced.</p>
<b>Elections</b>	
<p>Elections cleaner since end of Stroessner regime. Electoral Tribunal has modern voter registry and results are not contested.</p> <p>New political parties have been formed and, in 2003 won an important number of Congressional seats.</p> <p>According to Electoral Tribunal, parties have been relatively good in accounting for public funds received for electoral campaign and operations.</p>	<p><i>Colorado</i> Party has managed to maintain hold on power. Although electoral process is cleaner, electoral field not yet leveled because <i>Colorados</i> benefit disproportionately from public funding and patronage. Private contributions not properly controlled and disclosed.</p>
<b>Executive</b>	
<p>President Duarte has shown political will to fight corruption. He has appointed a respected non-<i>Colorado</i> technocrat to head the Ministry of Finance (MF). MF has appointed qualified apolitical officials to key offices, such as tax collection, customs and procurement.</p> <p>MF created <i>Unidad de Transparencia y Participación Ciudadana</i> to make information available to public and receive/respond to complaints.</p> <p>Other ministries, e.g. Commerce and Industry and Public Works, have undergone limited but significant reforms.</p> <p><i>Secretaría de la Función Pública</i> established and elevated to cabinet position. It is in charge of civil service modernization, including implementation of a new public service law (1626).</p>	<p>Fight against corruption is a personal, not an institutional effort. Many believed that Duarte’s anti-corruption rhetoric targets donor community.</p> <p>Resistance to change is widespread throughout public sector, even in MF. <i>Unidad de Transparencia</i> faces resistance within the Ministry.</p> <p>Virtually no reforms have been introduced in the Ministry of Health, Forestry Department, and the Social Security Institute. These offices regarded by both users and public officials in the World Bank survey as extremely corrupt.</p> <p>A number of elements of new civil service law challenged in court, particularly those related to performance and meritocracy. Most public employees cannot be fired or transferred. Nepotism and patronage are rampant.</p>

Progress	Setbacks
Control Institutions	
A system of control institutions has been developed, that includes the <i>Contraloría</i> , the <i>Tribunal de Cuentas</i> , the <i>Ministerio Público</i> , the <i>Auditoría General del Poder Ejecutivo</i> , the <i>Procuraduría de la República</i> and the <i>Secretaría de la Función Pública</i> . This map fulfills basic requirements set by the Inter-American Convention against Corruption.	In practice, the individual pieces of the control system do not collaborate well. Each has important areas of weaknesses and lacks essential human and financial resources. There also is overlap of responsibilities between the <i>Ministerio Público</i> and the <i>Procuraduría</i> .
<b>Auditoría General del Poder Ejecutivo</b> is in charge of setting norms and oversight for GOP internal control. Isolated efforts to operationalize internal control systems are taking place in MF, the <i>Ministerio Público</i> , the <i>Contraloría</i> and the Supreme Court.	Most ministries have not operationalized internal control systems. Information, organizational planning and objectives, as well as performance indicators, are scattered, lack systematization or are altogether absent. Most government offices lack standard operations manuals.
<b>Contraloría General</b> is only ten years old. By design, it is independent from Executive and has some room to operate independently. <i>Contralor</i> is member of opposition party. <i>Contraloría</i> has an internal control unit.  CG has actively participated in CISNI and has worked with civil society groups, such as the <i>Red de Contralorías Ciudadanas</i> .	CG still somewhat politicized. Many believe <i>Contralor</i> uses discretion to protect corrupt practices. Have been petitions to eliminate CG.  While CG lacks adequate human and financial resources to conduct audit, it is not optimizing use of the resources it has  Coordination between the CG and the <i>Ministerio Público</i> is weak.
<b>Ministerio Público</b> (MP) has existed for ten years. With introduction of accusatorial legal system, MP has increased its functions and responsibilities, and has experienced some modernization and professionalization (e.g. creation of specialized investigative units in areas such as, economic corruption, environment, human rights, narcotics and intellectual property). The <i>Unidad de Delitos Económicos</i> has been created to prosecute, among others, corruption cases. Recently implemented ethics code and has established internal control unit. It actively participates in CISNI.  Since Duarte came to office, the <i>Ministerio Público</i> has brought to trial three former presidents, the former comptroller general, the former Mayor of Asunción, and several judges.	MP frequently accused of using discretion to drop, lose or delay corruption cases. Many believe MP is a corrupt institution.  Like most government offices, MP lacks sufficient financial, human, and technical resources to fulfill its functions. It has no forensics facilities.  The politicization of the process of selection, promotion and removal of prosecutors is cited as the most important cause of under-performance and corruption in the MP.  Coordination between <i>Unidad de Delitos Económicos</i> and the Court System is weak. MP has little influence on the efficiency of justice system in processing cases and providing sentencing.
<b>The Court System.</b> After Duarte promoted the resignation/removal of six of the nine judges for alleged involvement in corruption, the Supreme Court has been given more legitimacy.	Impunity is rampant and is perceived to be the single most important cause of corruption.  Discretion to drop cases or permit judge shopping contributes to corrupt image. Court delays result in case

Progress	Setbacks
IDB is funding institutional modernization and strengthening of the judicial branch. Project seeks to implement jurisdictional, administrative and institutional management systems, as well as computerized support. USAID also investing in modernization of recruitment information systems, professionalization of the judicial career, and introduction of a new judicial ethics code.	<p>dismissals due to statute of limitations.</p> <p>Resources are not a main problem, as the judicial system receives 3-4.7% of national budget (Latin American average is 1%). Main problem is efficiency and effectiveness.</p> <p>Politicized nomination, sanctioning and removal of judges and magistrates. The Magistrate Council, Judicial Impeachment Jury and the Judicial Superintendency are all considered politicized.</p>
<b>Defensoría del Pueblo</b>	
In October 2001, after years of inaction, in accordance with the Constitution, the Chamber of Deputies named the first <i>Defensor</i> .	Perceptions of <i>Defensoría del Pueblo</i> are negative. Not a significant anti-corruption player. People do not trust the institution.
<b>Legislature</b>	
<p>More parties now represented in Congress. <i>Partido Colorado</i> no longer monopolizes political system as completely. In addition to the <i>Partido Liberal</i>, there are now four additional opposition parties in Congress (MPQ, PUNACE, PPS and PEN).</p> <p>Votes of individual legislators in Chamber of Deputies are electronically recorded and made public.</p> <p>Ethics Code for Chamber of Deputies was passed.</p> <p>With USAID help, a program to help implement and institutionalize public hearings is underway.</p>	<p>The two biggest political parties, <i>Colorados</i> and the <i>Liberales</i>, have blocked legislation regarding asset disclosure for public employees, illicit enrichment and freedom of information. Public perception is that parties are networks of individuals attempting to get control of public resources for their own benefit. Very little ideological differences between two major parties.</p> <p>Senate votes not recorded electronically or made public.</p> <p>Despite the adoption of a Code of Ethics, the Chamber of Deputies has weak to non-existent internal controls and enforcement mechanisms.</p>
<b>Relevant Laws</b>	
Over last five years, several key laws have been passed. Areas include modernizing the civil service, financial administration, procurement and the Customs Code.	<p>While some of these laws have been implemented, others have been vetoed, fatally modified or are being challenged in the courts.</p> <p>Many older laws are not enforced.</p>
<b>CISNI</b>	
CISNI involves public, civil society, religious and private actors. It is a space for dialogue on issues related to transparency and accountability. CISNI has served as platform to design/monitor implementation of the National Integrity Plan and monitor compliance with the Inter-American Convention against Corruption and the United Nations Convention against	CISNI is almost totally dependent on IDB financing and lacks resources to implement a number of initiatives, such as the Transparency Certification for government entities.

Progress	Setbacks
<p>Corruption.</p> <p>With help of World Bank Institute, CISNI will conduct an updated assessment on corruption to measure changes from 1999 and to update the PNI.</p>	
Civil Society Organizations	
<p>Since 1989 establishment of democracy, civil society is increasingly organized and active. It has evolved through experience in key national events, such as the protests following the assassination of Vice-President Argaña in 1999.</p> <p>Important unique experiences are beginning to emerge, such as the <i>Red de Contralorías Ciudadanas</i>.</p> <p><b>Media.</b> The media, particularly newspapers and radio, have inundated news market with corruption news and scandals. With the help of USAID and others, journalists have received basic investigative reporting training.</p>	<p>Civil society organizations are still weak and lack cohesion, technical skills, and financial resources. Most CSOs still confrontational and many resist partnering with pro-reform government officials to engage in anti-corruption projects.</p> <p>Poor access to information makes civil society participation in a/c crusades more difficult.</p> <p>Corruption news and scandals receive little follow-up. Public rarely knows what final outcome is. This reflects problem of skills and pressures from corrupt media owners in cases involving friends or clients.</p> <p>The media rarely reports good news (small but significant victories) in the fight against corruption.</p>

## **Annex VI: A Sampling of Recent Corruption Scandals in Paraguay**

### **The Cases Against Former Presidents and Other High-Level Political Figures**

- Juan Carlos Wasmosy (Influence Peddling)

Juan Carlos Wasmosy was elected President in 1993. He was accused of having cost the Government millions of dollars when as President he signed a 1996 decree authorizing the Central Bank to consolidate and restructure the debt of *Banco de Desarrollo*, a private bank. It is alleged that the decree was intended to help bail out the owners/managers of the *Banco de Desarrollo*. Although Wasmosy was sentenced to four years in prison, the judgment was appealed and recently set aside on grounds of insufficient evidence.<sup>35</sup>

- Raul Cubas Grau (Embezzlement)

After the Supreme Court blocked Lino Oviedo's candidacy on charges related to a 1996 coup attempt, his former running mate, Raul Cubas Grau, became the *Colorado* Party's candidate and was elected in May 1998. The Attorney General has accused Cubas of illegally using US\$700,000 from the *Banco Nacional de Fomento* to finance a protest campaign in Oviedo's favor. The case is still open. Although Cubas had sought asylum in Brazil, he is now back in Paraguay and is under a form of house arrest (*medidas sustitutivas de prisión*).<sup>36</sup>

- Luis Gonzalez Macchi (Influence Peddling and Embezzlement)

Macchi became President in 1999. Following the revelation that his car had been stolen in Brazil and that close members of his family had been involved in the illegal transfer to the United States of US\$16 million in assets from two liquidated banks, Liberal elements in the lower house of Congress considered but did not pass a motion to impeach him for corruption. The *Partido Colorado* did not go along with the motion for fear that the Liberal Vice-President would become President. Further revelations indicated that the government had paid nearly US\$0.5 million to a business partner of the President's sister to certify the transfer of assets owned by Antelco (National telecom company) to COPACO (then, the new telecom joint stock company). A second attempt to impeach Macchi failed in December 2002. He also is accused of having squandered a US\$400 million loan from Taiwan. His case is still open.<sup>37</sup>

- Other High Profile Cases

The case of the ex-Controller General involves the misuse of million of *guaranies* for courses and consulting services allegedly provided to public institutions and enterprises. He has been accused of money laundering. The team was told that he has been freed by a judicial decree and is living comfortably in Paraguay with the fortune he has amassed.

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<sup>35</sup>Reported in *ABC Color*, September 19, 2004, p. 52; and in *Ultima Hora*, September 17, 2004, p. 13.

<sup>36</sup>Reported in *Ultima Hora*, September 17, 2004, p. 13.

<sup>37</sup>Reported in *Ultima Hora*, September 17, 2004, p. 13.

Another high profile case is that of the former Mayor of Asunción. This young, U.S. educated politician, who had received awards for his integrity, was accused of mis-spending nearly US\$1 million of public funds on alleged municipal projects and other unrelated activities. He was absolved of all charges due to weak evidence.

### **Phantom Payments and Companies**

- *Compañía Paraguaya de Comunicaciones (COPACO)*

The Internal Control Office of COPACO reported that it detected nearly US\$60,000 in phantom payments between January and June 2004. The alleged payments did not have the necessary vouchers. According to COPACO's investigation, this was a case of inside manipulation of the payment system and involved collusion with residential and commercial clients. COPACO has submitted the case to the *Ministerio Público*.<sup>38</sup>

- *Empresa de Servicios Sanitarios del Paraguay (ESSAP)*

On one occasion in 2003 and two in 2004, ESSAP paid for services (repair of water conduits) from three companies that existed only on paper. *Ultima Hora* investigated the case and found evidence (vouchers and corresponding receipts). When investigative reporters from *Ultima Hora* attempted to contact these companies, they found that they were non-existent. No word on whether ESSAP was pursuing a formal investigation.<sup>39</sup>

- Suppliers to the Armed Forces

In August 2004, an *Ultima Hora* investigation found a network of phantom suppliers who were selling products to the Armed Forces. As a result of this report, the Comptroller General initiated a formal investigation. It discovered that, in four months, these suppliers sold the Armed Forces merchandise worth over US\$175,000. The majority of the companies only existed on paper. The case is still under investigation.<sup>40</sup>

### **Illicit Enrichment**

- Subsecretariat of Internal Revenue (*Subsecretaría de Tributación*)

Even under the strong management of a motivated leader with high integrity, the Internal Revenue Office remains vulnerable to corrupt acts. Two tax auditors and two managers were arrested in September 2004 for alleged participation in a fraudulent scheme worth over US\$200,000. They were accused of falsifying documents to obtain Certificates for Tax Returns, which then were sold to the highest bidder. With sufficient evidence to charge them, the *Ministerio Público* ordered the arrest of the four public servants.<sup>41</sup>

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<sup>38</sup>Reported in *ABC Color*, Tuesday September 14, 2004, p. 19.

<sup>39</sup>Reported in *Ultima Hora*, Tuesday September 14, 2004, p. 6.

<sup>40</sup>Reported in *Ultima Hora*, Wednesday September 15, 2004, p. 8.

<sup>41</sup>Reported in *ABC Color*, September 16, 2004, p. 27.



- *Dirección de Material Bélico (DIMABEL)*

The Paraguayan military justice system reported that between 2001 and 2003, DIMABEL defrauded and embezzled more than US\$400,000 of public funds. After investigation by the Comptroller General's office and military justice entities, the report concluded that the funds were used to contract unnecessary personnel and give bonuses to managers at the end of 2001-2003, even though DIMABEL was technically idle since early 2001. The report named responsible parties, but there is no word on possible prosecution.<sup>42</sup>

- *Pensions to Veterans and Families of the Chaco War*

The 2002 census indicates no more than 5,600 males over the age of 80 living in Paraguay, not all of whom were veterans of the Chaco War (1932-1935). Yet, it was reported that 6,794 male veterans receive a monthly pension of about US\$228, or a total of more than US\$20 million annually (including the 13<sup>th</sup> month payment). The scheme permits government employees to benefit by keeping veterans or their wives on the pension rolls as though they were still alive and eligible to receive the monthly pension. Investigations continue.<sup>43</sup>

- *Selling Donated Drugs for Profit*

Following the recent tragic supermarket fire, a variety of donations, including medicines, poured into Paraguay. A joint investigation by the *Ministerio Público* and the Ministry of Health showed evidence that some of the donated medicine had been sold. A Ministry employee was caught selling donated medicines to local pharmacies. The employee had been put in charge of the warehouse established to receive donations and had been working in collusion with colleagues. They have been charged, and the case against them is being processed.<sup>44</sup>

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<sup>42</sup>Reported in *La Nación*, September 15, 2004, p. 6.

<sup>43</sup>Reported in *ABC Color*. September 19, 2004, p. 20.

<sup>44</sup>Reported in *Ultima Hora*, September 17, 2004, p. 17.

## **Annex VII: Internal Controls Basics and Implications for Anti-Corruption Strategies**

Internal control is an integrated financial and administrative oversight system that must be adopted by an organization to ensure that its activities, processes, operations, performance, information and resources are implemented and administered in accord with established legal and normative frameworks and within the operational context. An internal control system is a powerful tool to improve the efficiency and effectiveness of the organization. It involves the establishment of principles, norms, and procedures and the development of monitoring and evaluation mechanisms. In controlling corruption, internal control systems play a critical role in the detection and prevention of corrupt behavior within an organization.

There is not a single universally accepted model of internal controls, although the COSO/U.S. Tradeway Commission and U.K. Cadbury Commission, the Canadian Criteria of Control Board/CoCo and the MICIL (*Marco Integrado de Control Interno*) often have been used as reference models. In some countries (e.g. Colombia) internal control systems are imbedded in the constitution. As such, internal control systems can be thought of as integral to the process of government modernization.

In the last decade, integrated financial management systems (IFMS) have become one of the most important technological tools to design and implement financial internal controls. Internal control provides the glue that holds systems together in organizations and offers reasonable assurance that operations are functioning in the manner management intend. It confirms that financial information generated by the system is materially correct and that applicable rules and regulations are in compliance. Properly applied, internal controls are tools of management, intricately woven into the fabric of an organization and help managers execute their responsibilities effectively and efficiently.

Often, the concept of internal control has been confused with external controls because of the frequent use of the term "control" to mean "audit." Internal control is more related to the concept of internal managerial control. Internal audits are of course part of the internal control system. They review the efficiency of operations, suggest improvements and monitor compliance with existing internal control standards and norms. Internal controls include all major factors that, taken together, support people in the achievement of their work objectives and the goals of the organization. The focus of internal control is on working with management and staff to improve operations. It is a supportive, not adversarial, relationship. Only if fraud or wrongdoing is suspected does an internal audit take on a potentially adversarial posture vis-à-vis suspected staff members.

Viewing internal control as a tool of management has an impact on the organization, the internal audit function and the application and operation of IFMS. First, enforcement of internal controls becomes the responsibility of all personnel, not only the internal auditors. Second, internal audit, while separate from operational management, becomes responsible to the highest executive authority within the agency. Third, the emphasis shifts in internal audit from periodic reviews of compliance to a continuous review of operational systems and their inbuilt controls for effectiveness, efficiency *and* compliance. Controls that do not contribute to all three of these aspects of internal control are revised or eliminated. Fourth, the capabilities of audit staff must

go beyond accounting and auditing to incorporate an understanding of some of the skills involved in the operations of the agency. They include an ability to solicit and gain the cooperation and support of operational personnel who possess those skills and are most likely to encounter and understand material weaknesses in the control structure. Finally, audit procedures must look beyond particular transactions for evidence of compliance, to a review of the control environment, including the ethical standards, overall levels of staff competency and the risks facing the organization.

Very important to the effectiveness and efficiency of internal audit is the degree to which its relationship to external audit is clear and independent. Internal audit is a tool used by top management to assure that the management controls instituted to help the organization achieve its goals are functioning as intended. Internal audit is independent of operational management and reports directly to the agency's highest authority--either a governing board or the agency head. External audit is independent and separate from an organization's management, even top management. In the public sector, it is part of the legislature's oversight of executive branch agencies. The Supreme Audit Institution (SAI), in many countries the Comptroller General, is the external auditor of the government, and must be totally independent of the executive branch.

The SAI usually sets the auditing standards by which internal auditors must operate. Although their roles are different, they are complementary. The internal audit body should submit its annual work plans to the SAI for review (not be confused with approval). Reviewing the work plan of the internal audit units allows the SAI to alert the internal audit unit to any potentially duplicative work and to adjust its own schedule if it must rely on the audit work. The internal audit unit should only make adjustments in its own schedule if it thinks it appropriate. To be effective, the internal audit unit should be operationally independent from external audit.

Without a strong internal audit function, the SAI can become a large, costly and unwieldy operation. Without the monitoring provided by internal audit, problems are likely to increase. At the same time, given the SAI's main function of making the government accountable, it cannot rely completely on the work of the internal audit unit and must do more direct auditing instead of quality reviews. Additionally, external auditors may have less knowledge of an agency's operation and must spend more time acquiring that knowledge in order to audit. Key to internal control is the principle of normative centralization and operative decentralization.

One of COSO's core conclusions was that "official policies" (formal controls) specify what management wishes to happen. However, the "culture of the organization" (informal controls) determines what actually happens – that is, which rules are obeyed, ignored or bent. Especially in optimizing transparency and corruption control, it is important to assess the informal internal controls. If this is not done, organizations risk having potentially serious problems go undetected and losing the opportunity to change.

Source: Based on USAID/Casals and Associates Inc./Universidad EAFIT. *Programa de Fortalecimiento de la Transparencia y Rendición de Cuentas en Colombia*. Bogotá, 2004; USAID/AAA Project/Casals and Associates, Inc. Technical Assistance Module on Control Self-Assessment: A Tool for Organizational Improvement in Latin America: Alexandria, VA: Kwik Kopy, 2004; and Margaret Bartel, "Integrated Financial Management Systems, Based on the Experience in Latin America," *LAPTS Occasional Paper Series*, Number 19, Institute for Democratic Strategies, Washington, D.C., 1996.